BUDGET COMMITTEE
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Judd Gregg, Chairman
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**Embargoed Until Delivery** **October 26, 2005**

**Opening Statement**
**Chairman Judd Gregg**
**U.S. Senate Budget Committee**
**Mark-Up of the *Deficit Reduction Omnibus Reconciliation Act of 2005***
**October 26, 2005**

In April, Congress adopted the Fiscal Year 2006 Budget Resolution, which instructed eight Senate authorizing committees to recommend changes to direct spending programs within their jurisdiction and report those recommendations to the Budget Committee. We have received legislative recommendations from all eight committees and packaged them into the *Deficit Reduction Omnibus Reconciliation Act,* which we will now consider reporting to the full Senate for consideration.

It is important to note that our job is a ministerial one. We cannot amend the bill here in Committee. We must confirm that it is technically correct, packaged properly and then vote to report it to the floor. No other motions are in order, except for reporting the bill. To amend or strike provisions of the bill here in Committee would disqualify it as a reconciliation bill and deprive it of the protections and privileges afforded to a reconciliation bill on the Senate floor.

Now that I have covered the procedural aspects of today’s mark-up, I would like to touch on the driving force behind this effort – the federal deficit and the out-of-control spending that is pushing it increasingly higher. This bill takes fiscally responsible steps to reduce the deficit, reduce spending that is on autopilot, and strengthen our economy. The bill also re-prioritizes some existing spending in order to provide better education and health care programs for low-income individuals and families. It is the first deficit reduction package in nearly a decade, and probably the most important legislation to be considered this year.

First, let’s take a look at the current situation concerning the deficit. End-of-the-year budget results from the U.S. Treasury show that the FY 2005 deficit was $319 billion. While that is down from previous expectations due to a strong increase in individual and corporate tax receipts, it is still too high. We are on an unsustainable path that will jeopardize the economic stability of future generations.

Spending is the problem. Simply put, we are spending a lot more than we are taking in, despite the fact that our tax receipts are growing stronger. And that is putting a serious strain on our economy down the road. The kind of spending that is the biggest problem is what we call “mandatory.” These programs, which simply grow year after year on automatic pilot with no regular review by Congress, are threatening our future economic security, and putting our children and grandchildren at risk. Automatic spending, excluding interest on the debt, now represents 56 percent of all federal spending. Left unchecked, that will grow to more than 62 percent in 10 years. Accelerating spending in several of the largest entitlement programs is on the verge of overwhelming our economy’s ability to pay for those benefits as the Baby Boom generation begins to retire in 2008. We must find a way to slow the rate of growth of automatic spending to a level that is sustainable, given that the ratio of retirees to workers will be higher than ever before.

Under the 2006 Budget Resolution, the federal government is estimated to spend $13.8 trillion over the next five years. The Deficit Reduction Bill seeks to reduce outlays by more than $39 billion over that time period, which is less than 0.3 percent of total federal spending. Many would argue that is not enough, considering that the last three enacted reconciliation bills in the 1990s included 2-3 times the amount of savings: in constant 2005 dollars, the 1990 bill cut mandatory spending by $100 billion, the 1993 bill cut $96 billion, and the 1997 bill cut $118 billion, all over a five-year period. I agree that more needs to be done to reduce the deficit and control spending, but argue that what we are considering today is a step in the right direction.

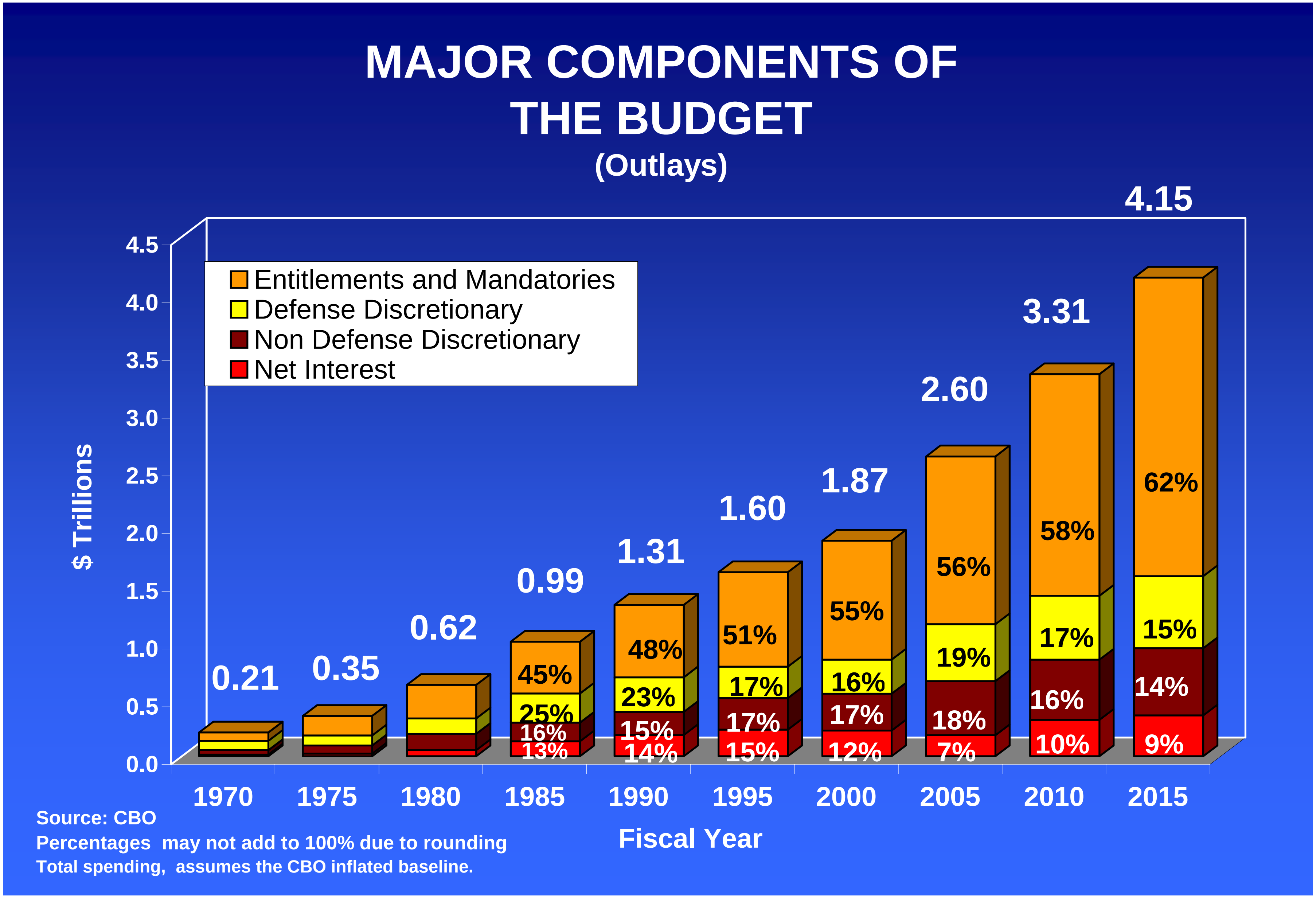
To that end, I commend the eight committees and their chairmen for their hard work in identifying good government reforms that will reduce the deficit and better serve all Americans, but especially those who need our help the most. For example, the bill reduces bank and education lender subsidies and profits by $21 billion, reducing the deficit by $10 billion and putting the remaining $11 billion into education programs for low- and middle-income students.

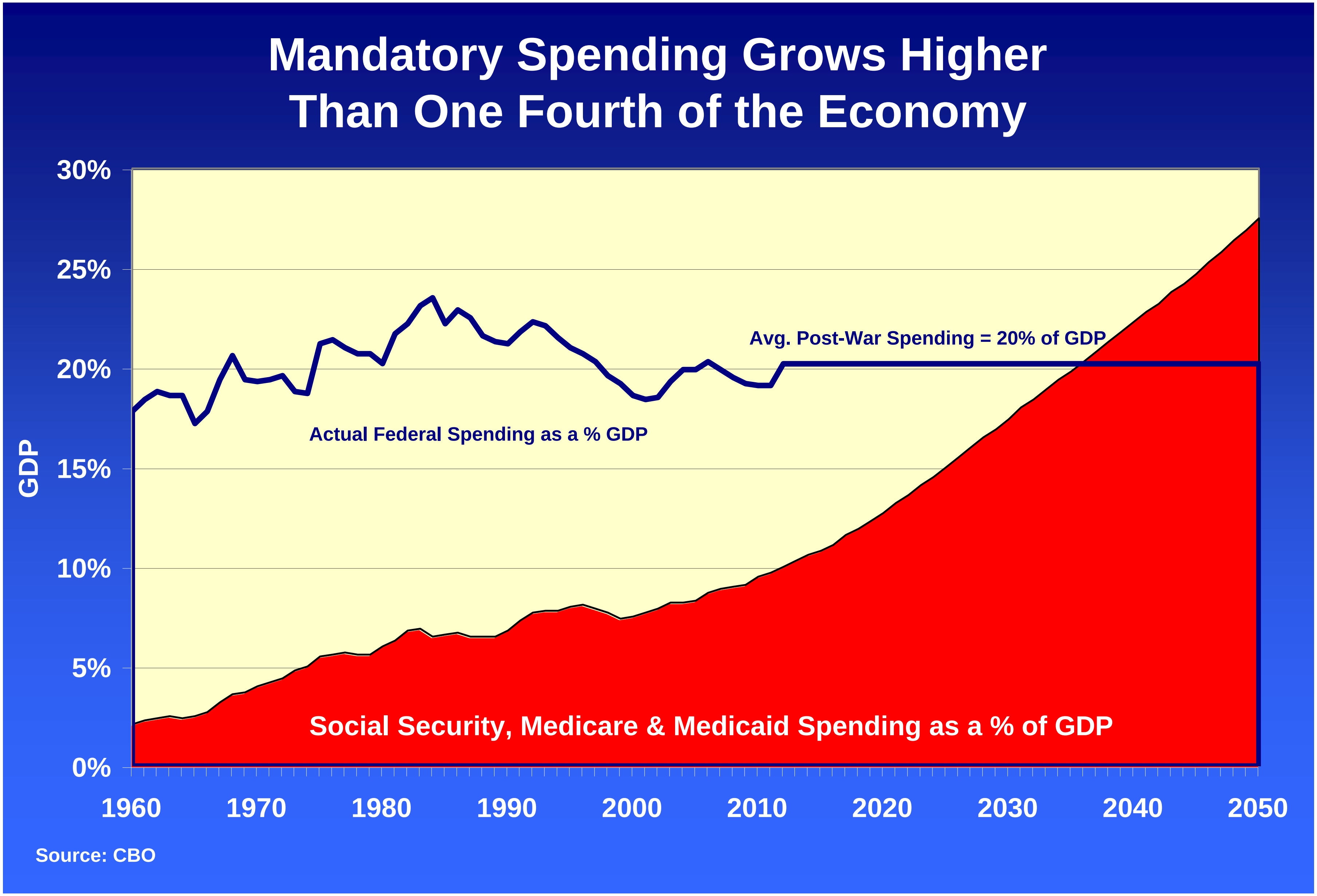
To strengthen the Medicaid and Medicare programs, the bill reduces growth in the programs (Medicaid by 0.7 percent; Medicare by 1.0 percent) by $26 billion over five years by more accurately calculating reimbursements to pharmacies and drug manufacturers, reducing waste and fraud, and clarifying Medicare reimbursement policies for insurance companies. It then reduces the deficit by $10 billion and uses the remaining $16 billion to strengthen and improve Medicaid and Medicare services. The bill also helps to shore up the pension insurance system so that promises made to retirees are promises kept, and promotes U.S. energy independence so we can avoid costly domestic production disruptions and lessen our dependence on foreign oil.

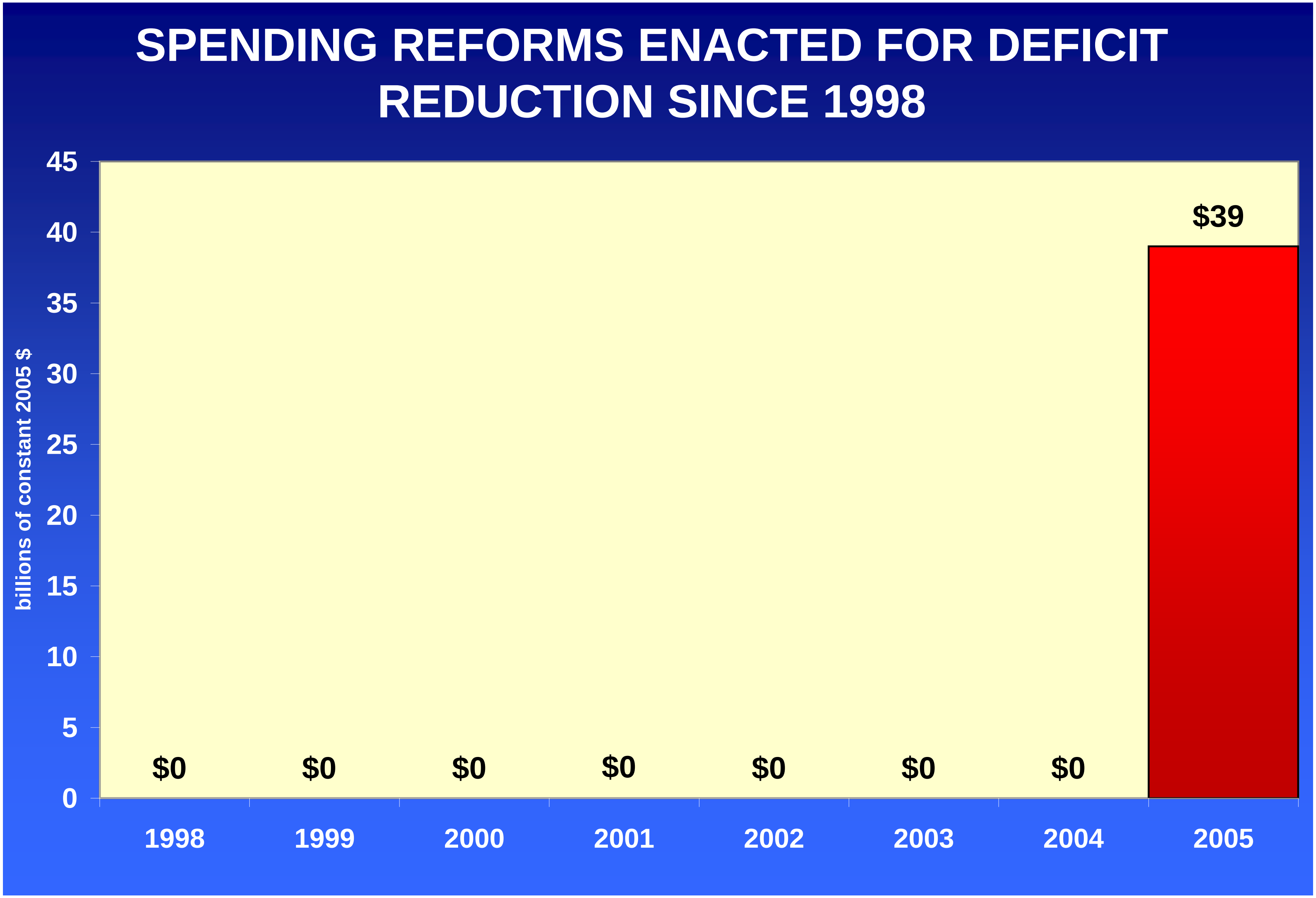
Despite some serious economic set-backs such as Sept. 11$^{th}$, a recession, and a significant correction in the stock market, the U.S. economy has managed to stay resilient as the President and Congress have worked to enact sound economic policies and lessen the tax burden on families and businesses. That has produced 4.2 million jobs since May 2003 and generated a 14.6% increase in tax receipts this past fiscal year. Long-term interest rates are relatively low and homeownership is at an all-time high.

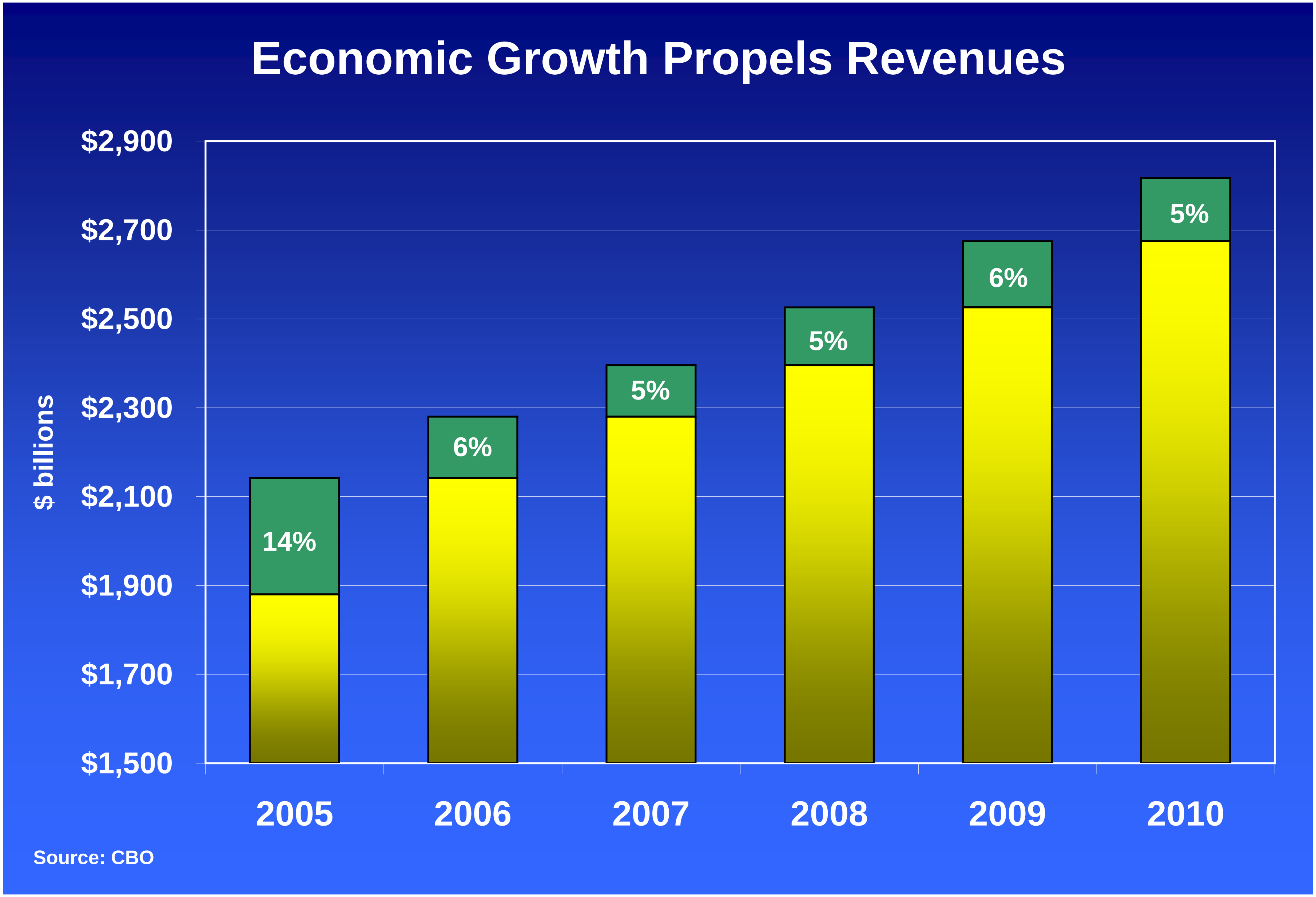
That is all good news, and something we want to continue for future generations. But to make that happen, we need to control spending and reduce the deficit, while allowing Americans to keep and invest more of what they earn so that the economy can continue to expand and grow. I urge strong support for this effort in Committee and on the Senate floor.

-end-


MAJOR COMPONENTS OF
THE BUDGET
(Outlays)
Entitlements and Mandatories
Defense Discretionary
Non Defense Discretionary
Net Interest
$ Trillions
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
0.21
0.35
0.62
0.99
1.31
1.60
1.87
2.60
3.31
4.15
45%
25%
16%
13%
48%
23%
15%
14%
51%
17%
17%
15%
55%
16%
17%
12%
56%
19%
18%
7%
58%
17%
16%
10%
62%
15%
14%
9%
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
Fiscal Year
Source: CBO
Percentages may not add to 100% due to rounding
Total spending, assumes the CBO inflated baseline.


Mandatory Spending Grows Higher
Than One Fourth of the Economy
30%
25%
20%
15%
10%
5%
0%
GDP
Avg. Post-War Spending = 20% of GDP
Actual Federal Spending as a % GDP
Social Security, Medicare & Medicaid Spending as a % of GDP
1960
1970
1980
1990
2000
2010
2020
2030
2040
2050
Source: CBO


SPENDING REFORMS ENACTED FOR DEFICIT REDUCTION SINCE 1998
billions of constant 2005 $
45
40
35
30
25
20
15
10
5
0
$0
$0
$0
$0
$0
$0
$0
$39
1998
1999
2000
2001
2002
2003
2004
2005



Economic Growth Propels Revenues
$2,900
$2,700
$2,500
$2,300
$2,100
$1,900
$1,700
$1,500
$ billions
14%
6%
5%
5%
6%
5%
2005
2006
2007
2008
2009
2010
Source: CBO

# Tax Provisions Expiring Within the Budget Window
(Partial list)

**Provisions Expiring after 2005 (12-31-2005)**

**Relief from Individual Alternative Minimum Tax (AMT)**
**Research and Experimentation Tax Credit**
**Deduction for Teachers' Classroom Expenses**
**Deduction for Qualified Education Expenses**
**Deduction of State and Local Sales Taxes**
**Welfare-to-Work Tax Credit**
**Work Opportunity Tax Credit**
**D.C. First Time Homebuyer Credit**

**Provisions Expiring after 2006 (12-31-2006)**

**Saver's Credit**

**Provisions Expiring after 2007 (12-31-2007)**

**$100,000 deduction for small business (section 179) expensing**